

# Livingston Parish Sewer District Number Two

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## Annual Financial Statements

As of and for the Year Ended December 31, 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7-18-07

**LEROY J. CHUSTZ**  
Certified Public Accountant  
A Professional Accounting Corporation

**Livingston Parish Sewer District Two**  
**Annual Financial Statements**  
**As of and For the Year Ended December 31, 2006**  
**With Supplemental Information Schedules**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>Independent Auditor's Report on the Financial Statements.....</b>	<b>3</b>
<b>Required Supplementary Information (Part I)</b>	
Management's Discussion and Analysis.....	5
<b>Basic Financial Statements:</b>	
Statement of Net Assets.....	12
Statement of Activities.....	13
Statement of Cash Flows.....	14
Notes to the Financial Statements.....	16
<b>Other Report Required by <i>Government Auditing Standards</i>:</b>	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	30
Schedule of Findings.....	32
Schedule of Prior Year Findings.....	33

**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

**Board Members of  
Livingston Parish Sewerage District Two  
Denham Springs, Louisiana**

I have audited the accompanying basic financial statements of the **Livingston Parish Sewerage District Two**, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2006, as listed in the Table of Contents. These basic financial statements are the responsibility of **Livingston Parish Sewerage District Two's** management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the *Louisiana Governmental Audit Guide*. Those standards and the guide require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position and the results of operations and cashflows for the year then ended of the **Livingston Parish Sewerage District Two**, as of December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 19, 2007, on my consideration of the **Livingston Parish Sewerage District Two's** internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the **Livingston Parish Sewerage District Two's** basic financial statements. The accompanying supplementary information, such as the Management's Discussion and Analysis, as listed in the Table of Contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the **Livingston Parish Sewerage District Two**, but is required by the Governmental Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

*Leroy J. Chustz*

Certified Public Accountant  
June 19, 2007

**Required Supplemental Information (Part I)**  
**Management's Discussion and Analysis**

**Livingston Parish Sewer District Two  
Denham Springs, Louisiana**

**MANAGEMENT'S DISCUSSION AND ANALYSIS 12-31-2006**

This section of the Livingston Parish Sewer District Two's annual financial report presents our discussion and analysis of the District's financial performance during this fiscal year. This document focuses on the current year's activities, resulting changes, and currently known facts. Please read this document in conjunction with the additional information stated on attached financial summaries

**OVERVIEW OF FINANCIAL STATEMENTS:**

The following narrative illustrates the minimum requirements as established by Governmental Accounting Standards Board Statement 34 as it pertains to the Livingston Parish Sewer District Two.

1. **\*\*MANAGEMENT DISCUSSION and ANALYSIS\*\***
2. **\*\*BASIC FINANCIAL STATEMENTS\*\***
3. **\*\*REQUIRED SUPPLEMENTARY INFORMATION\*\***

**BASIC FINANCIAL STATEMENTS:**

This annual report consist of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the operations of Sewer District Two of Livingston Parish as a whole and present a longer-term view of the current District finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Activities report the District's net assets and changes in them. The net difference between the assets and liabilities measures the health of the District's finances. Increases or decreases are noted as a measurement for your evaluation of the financial position of the District.

**Livingston Parish Sewer District Two  
Denham Springs, Louisiana**

P. 2

**FINANCIAL HIGHLIGHTS:**

1- District had cash and investments of \$1,236,878 on 12-31-2006 representing an decrease of \$966,847 from prior year end. The decrease resulted from disbursing proceeds regarding the completion of the August, 2004, bond sale during 2006 for capital assets .

2- District had accounts receivable of \$72,134 on 12-31-2006 representing an increase of \$10,004 from prior year end

3- District had prepaid insurance of \$36,735 on 12-31-2006 representing an increase of \$82 from prior year end

4- District had restricted assets of \$766,407 on 12-31-2006 representing a decrease of \$555,641 from prior year end with the bulk of the decrease relating to the restricted construction cash being disbursed.

5- District had land, plant facilities and equipment net of accumulated depreciation of \$9,332,735 on 12-31-2006. Depreciation expense totaled \$332,407 and amortization totaling \$7,620 as per GASB Statement 34 Guidelines on Capital Assets and Depreciation.

6- District had capital purchases and asset improvements placed in service of \$610,850 during period ended 12-31-2006 due to the completion of a new waste-water treatment facility and a major force main improvement.

7- District had sewer service sales and sewer maintenance fees of \$988,826 along with \$535,833 of non operating income inclusive of a US Corps of Engineers grant of \$384,000 as of 12-31-2006.

8-District had net income from all operations of \$207,505 on 12-31-2006. The net income is attributed to the netting of an increase in grant funds of \$384,000 and an additional expenses such as an increase of depreciation (\$72,026), and increase in general administration expenses of (\$20,015).

**Livingston Parish Sewer District Two  
Denham Springs, Louisiana**

**P. 3**

Financial Analysis of the Entity:

**STATEMENT OF NET ASSETS:**

	2006	2005
Current and other assets	\$ 1,347,009	\$ 1,224,566
Cash assets restricted	766,407	1,084,451
Capital Assets (Net)	9,619,197	9,311,815
 Total Assets	 \$ 11,732,613	 \$ 11,620,833
	<hr/>	<hr/>
Current liabilities	\$ 31,460	\$ 24,390
Other liabilities	218,700	219,854
Long Term debt payable	5,556,567	5,658,206
 Total Liabilities	 \$ 5,806,727	 \$ 5,902,450
	<hr/>	<hr/>
Net Assets:		
Reserved Retained Earnings	—	214,757
Unreserved Earnings	5,925,886	5,503,625
 Total Net Assets	 5,925,886	 5,718,382
	<hr/>	<hr/>

Net assets of the District increased by \$207,504 from the previous year resulting from operating and non-operating expenses exceeding revenues for 12-31-2006.

**General Revenue Information:**

The District receives no ad-valorem taxes or sales taxes, but rather is a customer-user based system whereby customers of the District pay service fees on sewer usage by previously established sewer rates. New customers pay connection fees when being added for service along with a service deposit to cover a reasonable monthly sewerage bill which is reserved. The District has experienced growth in the past six year period with a forecast of continued accelerated growth in 2007. The customer base has grown from an approximate 1,050 customers in 1998 to a billable customer count of 2,464 by the close of 12-31-2006.

**Livingston Parish Sewer District Two**  
**Denham Springs, Louisiana**  
**Statement of Activities**

**P. 4**

	2006	2005
Sewer Service Sales-operations	\$ 988,826	\$ 925,343
Non operating revenues	151,833	202,218
Grant Income	384,000	0
	-----	-----
Subtotal Revenues	1,524,659	1,127,561
District Expenses direct	( 465,254)	( 381,821)
District Expenses general	( 851,901)	(838,731)
Beginning Net Assets	5,718,383	5,811,374
Changes in net assets	\$ 207,504	\$ (92,991)
	-----	-----
Ending Net Assets	5,925,887	5,718,383
	=====	=====

District total revenues increased by \$63,483 and non operating revenues increased by \$333,615 respectively from the previous year. The total cost of operations increased by \$96,603 from the previous year due to the following:

(A) increased utilities of an additional\$ 22,023

(B) increase of insurance, fuel, professional fees, and depreciation totaled an additional \$79,641

**Capital Assets:**

District invested in a major improvement project on site relating to a new Wastewater Treatment Plant which was operational in mid 2005.

The District finalized all connections and final equipment requirements for the new wastewater treatment plant as well as the force main installation required to decommission the oxidation ponds.



**Livingston Parish Sewer District Two**  
**Denham Springs, Louisiana**  
**Statement of Activities (Continued)**

**P.5**

**Capital Assets:**

	2006	2005
1.LAND	\$ 138,134	\$ 138,134
<hr/>		
Systems, equipment, assets	12,880,102	12,225,072
(Accum. Depreciation/Amortiz.)	( 3,399,038)	( 3,051,391)
<hr/>		
2.NET EQUIP- SYSTEMS	\$ 9,481,064	9,173,681
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3.CONSTRUCTION IN PROGRESS	\$ 0	0
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Total Capital Assets Net	\$9,619,198	\$ 9,381,815
	<u>          </u>	<u>          </u>

**DEBT:**

District has a total outstanding debt of \$5,658,508 as of 12-31-2006.

**Livingston Parish Sewer District Two  
Denham Springs, Louisiana**

**P.6**

**CONTACTING Livingston Parish Sewer District Two's Management:**

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to show that the Livingston Parish Sewer District Two's accountability for the money received through its operations. If there are any questions about this report or need of additional financial information, contact Director of Operations, James Ray Clark , Post Office Box 1059 Denham Springs, La 70727.

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board. The sets of statements include:

1. Proprietary Fund Financial Statements:
  - Enterprise funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO**  
**STATEMENT OF NET ASSETS**  
As of December 31, 2006

<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 1,174,807.79
Certificate of Deposit (with original maturities in excess of three months)	62,069.94
Prepaid Expense	36,734.90
Receivables	72,133.69
<b>Total Current Assets</b>	<u>1,345,746.32</u>
<b>Restricted Assets</b>	
Cash and Cash Equivalents	766,407.07
<b>Total Restricted Assets</b>	<u>766,407.07</u>
<b>Property, Plant &amp; Equipment</b>	
Land	138,134.02
Capital Assets Being Depreciated (Net)	9,194,600.48
<b>Total Property, Plant, and Equipment (Net)</b>	<u>9,332,734.50</u>
<b>Intangible Assets</b>	
Unamortized Bond Issue Costs	286,462.65
<b>Total Intangible Assets (Net)</b>	<u>286,462.65</u>
<b>Other Assets</b>	
Deposits	1,263.40
<b>TOTAL ASSETS</b>	<u>11,732,613.94</u>
<b>Current Liabilities</b>	
Accounts Payable	26,752.54
Salaries and Related Benefits Payable	4,708.11
<b>Total Current Liabilities</b>	<u>31,460.65</u>
<b>Current Liabilities (Payable from Restricted Assets)</b>	
Accrued interest payable	116,757.63
Bond payable - FMHA - current portion	25,942.83
Bond payable - 1997 A series - current portion	26,000.00
Bond payable - 2005 - current portion	50,000.00
<b>Current Liabilities (Payable from Restricted Assets)</b>	<u>218,700.46</u>
<b>Long-Term Liabilities</b>	
Bond Payable - FMHA	698,566.07
Bond Payable - 1997 A series	158,000.00
Bond Payable - 2005	4,700,000.00
<b>Long-Term Liabilities</b>	<u>5,556,566.07</u>
<b>TOTAL LIABILITIES</b>	<u>5,806,727.18</u>
<b>Net Assets</b>	
Restricted Net Assets for Bond Retirement	766,407.07
Investment in Capital Assets - Net of Related Debt	3,387,763.85
Unrestricted Net Assets	1,771,715.84
<b>NET ASSETS</b>	<u>\$ 5,925,886.76</u>

The accompanying notes are an integral part of this statement.

**LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2006**

**OPERATING REVENUES:**

Sewer Fees	\$ 863,954.36
Permits & Inspection fees	120,659.00
User & Hook-up Fees	18,660.00
FEMA Reimbursement	47,050.00
Total Operating Revenues	<u>1,050,323.36</u>

**OPERATING EXPENSES:**

**Direct Expenses**

Depreciation & Ammortization	340,027.04
System Maintenance	125,226.64
Total Direct Expenses	<u>465,253.68</u>

**General and Administrative Expenses**

Salaries	245,367.05
Payroll Taxes & Group Insurance	44,538.63
Per Diem	1,800.00
Insurance	66,439.91
Professional Fees	32,670.04
License & Permits	1,510.36
Fuel and Supplies	30,774.74
Equipment Repairs	13,489.85
Office Expense	136,328.40
Total General and Administrative Expenses	<u>572,918.98</u>

Total Operating Expense	<u>1,038,172.66</u>
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<b>NET OPERATING INCOME (LOSS)</b>	<u>12,150.70</u>
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**NON-OPERATING REVENUES & EXPENSES**

Grant	384,000.00
Interest Income	90,336.37
Less: Interest Expense	(278,982.39)
Total Non-Operating Revenue (Expense)	<u>195,353.98</u>

<b>NET INCOME (LOSS)</b>	<u>207,504.68</u>
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<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>5,718,382.08</u>
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<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 5,925,886.76</u>
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The accompanying notes are an integral part of this statement.

**LIVINGSTON PARISH SEWER DISTRICT TWO**  
**STATEMENT OF CASHFLOWS**  
**For the Year Ended December 31, 2006**

**Cash Flows From Operating Activities**

Received From Customers	\$ 1,046,185.79
Other Receipts	
Payments for Operations	(397,269.80)
Payments to Employees	(286,997.57)
	<u>361,918.42</u>

**Cash Flows From Capital and Related Financing Activities**

Paid for Capital Acquisitions	(655,029.38)
Principal Repayments, Revenue Bonds Payable	(99,405.06)
Interest Payments - Revenue Bonds Payable	(282,371.12)
Grant Proceeds	384,000.00
	<u>(652,805.56)</u>

**Cash Flows From Investing Activities**

Receipt of Interest	90,336.63
Purchase of Investments	(2,260.19)
	<u>88,076.44</u>

**Net Increase (Decrease) in Cash**

	(202,810.70)
<b>Cash at Beginning of Year</b>	<u>2,144,025.56</u>
<b>Cash at End of Year</b>	<u>\$ 1,941,214.86</u>

**Reconciliation of Cash & Cash Equivalents to the Statement of Net Assets**

Cash & Cash Equivalents	\$ 1,174,807.79
Restricted Cash & Cash Equivalents	766,407.07
<b>Total Cash &amp; Cash Equivalents</b>	<u>1,941,214.86</u>

**Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities**

Operating Income (Loss)	12,150.70
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation & Amortization Expense	347,647.04
Change in Accounts Receivable	(4,137.57)
Change in Prepaid Expenses	(811.50)
Change in Accounts Payable	2,361.64
Change in Accrued Expenses	4,708.11
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 361,918.42</u>

The accompanying notes are an integral part of this statement

# **Basic Financial Statements**

## **Notes to the Financial Statements**

**LIVINGSTON PARISH SEWERAGE DISTRICT NUMBER TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**As of and For the Year Ended December 31, 2006**

**INTRODUCTION**

Livingston Parish Sewerage District Number Two, Denham Springs, Louisiana, was created by the Livingston Parish Police Jury (now the Livingston Parish Council) on October 26, 1974, pursuant to the provisions of R.S. 33:3811, et. seq., of the Louisiana Revised Statutes of 1950.

The District is located in Denham Springs, Louisiana. The purpose of the District is to provide sanitation services to customers within the boundaries of the District. The District is composed of three board members who are appointed by the Parish Council of Livingston. Board members are compensated for meeting attendance at the rate of \$60.00 per meeting.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, Sewerage District Two is considered a component unit of Livingston Parish Government. As a component unit, the accompanying financial statements should be included within the reporting of the primary government, either blended into those financial statements or separately reported as discrete component units.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Government-Wide and Fund Financial Statements**

The government-wide financial statements report information on all of the nonfiduciary activities of Livingston Parish Sewerage District Two. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meetings the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. All individual governmental funds and individual enterprise funds are reported as separate columns in the fund financial statements. The Livingston Parish Sewerage District Two has no governmental funds and only one proprietary fund.



**LIVINGSTON PARISH SEWERAGE DISTRICT TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2006**

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Livingston Parish Sewerage District Two reports the following proprietary funds:

Operating Fund - Accounts for financial resources of the District.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The District's primary sources of revenues are user charges and fees charged for connecting to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the entity's policy to use restricted resources first, then unrestricted resources as they are needed.

**C. Deposits and Investments**

The entity's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State law and the District's investment policy allow the entity to invest in collateralized certificates of deposits, government-backed securities, commercial paper, the state-sponsored investment pool, and mutual funds consisting solely of government-backed securities.

**D. Receivables and Payables**

All trade and property tax receivables are shown net of an allowance for uncollectible. The District periodically evaluates the collectability of delinquent accounts.

**LIVINGSTON PARISH SEWERAGE DISTRICT TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2006**

**E. Inventories and Prepaid Items**

All inventories are valued at cost using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements. As of year end, December 31, 2006, the District had no significant inventory.

**F. Restricted Assets**

The District is required to maintain the following reserves as a condition of the loans made to the Sewer District and/or bond covenants.

**FARMERS HOME ASSOCIATION LOAN**

**A. *Reserve Bond Sinking Fund***

Each month the district must transfer into the revenue bond sinking fund, a sum equal to one-twelfth of the interest falling due on the next interest payment date and, in addition, a sum equal to one-twelfth of the principal falling due on the next principal payment date, together with such additional proportionate sums as may be required as the same respectively become due. Said fiscal agent bank shall make available from the revenue bond sinking fund to the paying agent for all installments on the bond payable from said fund, at least ten days in advance of the date on which each payment of principal or interest falls due, funds fully sufficient to pay promptly the principal and interest so falling due on such date.

**B. *Sewerage System Revenue Bond Reserve Fund***

Each month the district must transfer into the reserve fund, a sum equal to five per cent of the sum required to be transferred in each month into the revenue bond sinking fund as required in the reserve bond sinking fund, the payments to continue until such time as there has been accumulated therein a sum equal to the highest combined principal and interest requirement in any succeeding fiscal year on the outstanding principal of the bonds. The money in the reserve fund is to be retained solely for the purpose of paying the principal of and the interest on bonds payable from the revenue bond sinking fund as to which there would otherwise be default.

**C. *Depreciation and Contingency Fund***

Each month the district must transfer into the depreciation and contingency fund the sum of \$413.00. All monies in the depreciation and contingency fund may be drawn on and used by the district for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions, and the costs of improvements to the sewerage system, which will either enhance its revenue producing capacity or provide a higher degree of service.

## **1997-A SERIES BONDS**

### ***A. Sewerage System Revenue Bond and Interest Sinking Fund***

The Revenue Bond Sinking Fund, sufficient in amount to pay promptly and fully the principle of and interest on the bond and unrefunded bond, including any additional pari passu bonds issued hereafter in the manner provided in this resolution, as they severally became due and payable by depositing with the regularly designated fiscal agent bank of the District (which must be a member of the Federal Deposit Insurance Corporation) by transferring from said Revenue Fund to the Sinking Fund before the 20th day of each month of each year beginning on the first day of the month following delivery of the bond, a sum equal to one-twelfth (1/12) of the interest falling due on the next interest payment date and, in addition, a sum equal to one-twelfth (1/12) of the principal falling due on the next principal payment date, together with such additional proportionate sums as may be required as the same respectively become due. Money in the Revenue Bond Sinking Fund shall be deposited as trust funds and shall be used solely and is hereby expressly and exclusively pledged for the purpose of paying principal of and interest on the bond and parity bonds.

Following the required payments to the Revenue Bond Sinking Fund, the monies remaining in the Revenue Fund shall be distributed in accordance with the following paragraphs:

### ***B. Sewerage System Revenue Bond Reserve Fund***

Established by transferring to the regularly designated fiscal agent bank (which must be a member of the Federal Deposit Insurance Corporation) monthly in advance on or before the 20th day of each month of each year, a sum equal to five percent (5%) of the sum required in (b) above, the payments to continue until such time as there has been accumulated therein a sum equal to the highest combined principal and interest requirement in any succeeding fiscal year on the outstanding principal of the bond, the unrefunded bond, and any additional parity bonds. The money in the Reserve Fund is to be retained solely for the purpose of paying the principal of and the interest on bonds payable from the Revenue Bond Sinking Fund as to which there would otherwise be default. In the event that additional pari passu bonds are issued hereafter in the manner provided by this resolution, there shall be transferred from the Sewerage System Revenue Fund into the Revenue Bond Sinking Fund, monthly or annually, such amounts (as may be designated in the resolution authorizing the issuance of such pari passu bonds) as will increase the total amount on deposit in the Reserve Fund within a period not exceeding five (5) years from the date of delivery of the parity bonds to a sum equal to the highest combined principal and interest requirements in any succeeding fiscal year on all outstanding bonds issued pursuant to the terms of this resolution, including such pari passu bonds.

### ***C. Depreciation and Contingency Fund***

Established by transferring from the Sewerage System Revenue Fund on or before the 20th day of each month to the regularly designated fiscal agent bank of the District (which must be a member of the Federal Deposit Insurance Corporation) the sum equal to five percent (5%) of the sums required to be transferred in each month into the Revenue Bond Sinking Fund, as required

**LIVINGSTON PARISH SEWERAGE DISTRICT TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2006**

in (b) above, but not less than \$168.00 per month. All monies in the Depreciation and Contingency Fund may be drawn on and used by the district for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions, and the costs of improvements to the Sewerage System, which will either enhance its revenue-producing capacity or provide a higher degree of service. In the event the available balances in the Revenue Bond Sinking Fund and Sewerage System Revenue Bond Reserve Fund are insufficient, monies on deposit in the Depreciation and Contingency Fund shall be transferred in such amounts as are necessary to eliminate the deficiencies, respectively, in the Revenue Bond Sinking Fund and the Reserve Fund.

Restricted assets have been set aside in the current period as required by the applicable bond resolution in order to service the bonds payable.

**2004 REVENUE BONDS - SERIES 2004**

**A. *Sinking Fund***

Established a Sewerage System Revenue Bond and Interest Sinking Fund, (the "Revenue Bond Sinking Fund"), sufficient in amount to pay promptly and fully the principle of and interest on the bond and unrefunded bond, including any additional pari passu bonds issued hereafter in the manner provided in this resolution, as they severally became due and payable by depositing with the regularly designated fiscal agent bank of the District (which must be a member of the Federal Deposit Insurance Corporation) by transferring from said Revenue Fund to the Sinking Fund before the 20th day of each month of each year beginning on the first day of the month following delivery of the bond, a sum equal to one-twelfth (1/12) of the interest falling due on the next interest payment date and, in addition, a sum equal to one-twelfth (1/12) of the principal falling due on the next principal payment date, together with such additional proportionate sums as may be required as the same respectively become due. Money in the Revenue Bond Sinking Fund shall be deposited as trust funds and shall be used solely and is hereby expressly and exclusively pledged for the purpose of paying principal of and interest on the bond and parity bonds.

**B. *Reserve Fund***

Established a Sewerage System Revenue Bond Reserve Fund, by transferring to the regularly designated fiscal agent bank (which must be a member of the Federal Deposit Insurance Corporation) monthly in advance on or before the 20th day of each month of each year, a sum equal to five percent (5%) of the sum required in (b) above, the payments to continue until such time as there has been accumulated therein a sum equal to the highest combined principal and interest requirement in any succeeding fiscal year on the outstanding principal of the bond, the unrefunded bond, and any additional parity bonds. The money in the Reserve Fund is to be retained solely for the purpose of paying the principal of and the interest on bonds payable from the Revenue Bond Sinking Fund as to which there would otherwise be default. In the event that additional pari passu bonds are issued hereafter in the manner provided by this resolution, there shall be transferred from the Sewerage System Revenue Fund into the Revenue Bond Sinking Fund, monthly or annually, such amounts (as may be designated in the resolution authorizing

**LIVINGSTON PARISH SEWERAGE DISTRICT TWO****Denham Springs, Louisiana****Notes to the Financial Statements****For the Year Ended December 31, 2006**

the issuance of such pari passu bonds) as will increase the total amount on deposit in the Reserve Fund within a period not exceeding five (5) years from the date of delivery of the parity bonds to a sum equal to the highest combined principal and interest requirements in any succeeding fiscal year on all outstanding bonds issued pursuant to the terms of this resolution, including such pari passu bonds.

***C. Depreciation and Contingency Fund***

Established a Depreciation and Contingency Fund, by transferring from the Sewerage System Revenue Fund on or before the 20th day of each month to the regularly designated fiscal agent bank of the District (which must be a member of the Federal Deposit Insurance Corporation) the sum equal to five percent (5%) of the sums required to be transferred in each month into the Revenue Bond Sinking Fund, as required in (b) above. All monies in the Depreciation and Contingency Fund may be drawn on and used by the district for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions, and the costs of improvements to the Sewerage System, which will either enhance its revenue-producing capacity or provide a higher degree of service. In the event the available balances in the Revenue Bond Sinking Fund and Sewerage System Revenue Bond Reserve Fund are insufficient, monies on deposit in the Depreciation and Contingency Fund shall be transferred in such amounts as are necessary to eliminate the deficiencies, respectively, in the Revenue Bond Sinking Fund and the Reserve Fund.

**G. Capital Assets**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

Description	Estimated Lives
Infrastructure assets	40
Land improvements	40
Buildings and building improvement	40
Furniture and fixtures	5-10
Vehicles	5
Equipment	3-10

**LIVINGSTON PARISH SEWERAGE DISTRICT TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2006**

**H. Compensated Absences**

Employees of the District earn leave based on the number of hours worked each pay period. At this time the District has no provisions for leave carryover; therefore, a leave accrued was not recorded in the financial statements.

**I. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**J. Fund Equity**

In the government wide financial statements, equity is reported as net assets and is segregated into three components. Those components are: amounts invested in capital assets (net of related debt), amounts restricted, and unrestricted net assets.

**K. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the District, which are either unusual in nature or infrequent in occurrence.

**L. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budget Information**

Livingston Parish Sewerage District Two uses the following budget practices:

- The District's administrative secretary prepares a proposed budget and submits same to the Board of Directors no later than fifteen days prior to the beginning of each fiscal year.

**LIVINGSTON PARISH SEWERAGE DISTRICT TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2006**

- A summary of the proposed budget is published and the public notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
- A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing.
- After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of a resolution prior to the commencement of the fiscal year for which the budget is being adopted.
- All budgetary appropriations lapse at the end of each fiscal year.
- Budgets for the funds are presented on the modified accrual basis of accounting. All budgetary amounts presented reflect the original amended budget (which have been adjusted for legally authorized revisions of the annual budget during the year).

**3. CASH AND CASH EQUIVALENTS**

At December 31, 2006, the District had cash and cash equivalents (book balances) as follows:

<b><u>December 31, 2006</u></b>	
Demand Deposits	\$ 1,174,807.99
Certificates of Deposit	<u>62,069.94</u>
Total	<b><u>\$ 1,236,877.93</u></b>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance of the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. Deposits (bank balances) secured at December 31, 2006, are as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the Board or by its agent in its name

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Board's name; or collateralized with no written or approved collateral agreement

**LIVINGSTON PARISH SEWERAGE DISTRICT TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2006**

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Not Required To Be Collateralized	Total Carrying Value
		1	2	3		
Cash and Cash Equivalents (unrestricted)	\$ 1,172,735.25	\$ 100,000.00	-	\$ 1,072,435.25	-	\$ 1,174,807.79
Certificates of Deposit (With original maturities in excess of three months)	62,069.94	62,069.94	-	-	-	62,069.94
Restricted Assets	766,296.20	-	-	-	766,296.20	766,296.20
Total Deposits	<u>\$ 2,001,101.39</u>	<u>\$ 162,069.94</u>	<u>-</u>	<u>\$ 1,072,435.25</u>	<u>\$ 766,296.20</u>	<u>\$ 2,003,173.93</u>

Deposits are collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.

**4. RESTRICTED ASSETS**

The following reserve accounts are required as a condition of District's bonds or loans:

**Sinking Fund**

	FMHA	1997 Series A	2004 Series A	Total
Required Balance	\$ 51,730.83	\$ 62,077.00	\$ 68,284.70	\$ 182,092.53
Balance at December 31, 2006	<u>51,730.83</u>	<u>62,077.00</u>	<u>68,284.70</u>	<u>182,092.53</u>
Over (Under) Funded Amount	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**Reserve Fund**

	FMHA	1997 Series A	2004 Series A	Total
Required Balance	\$ 31,650.00	\$ 37,800.00	\$ 16,717.87	\$ 86,167.87
Balance at December 31, 2006	<u>\$ 31,650.00</u>	<u>\$ 37,800.00</u>	<u>\$ 16,717.87</u>	<u>\$ 86,167.87</u>
Over (Under) Funded Amount	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**Depreciation & Contingency**

	FMHA	1997 Series A	2004 Series A	Total
Required Balance	\$ 81,816.30	\$ 284,820.00	\$ 28,731.48	\$ 395,367.78
Balance at December 31, 2006	<u>\$ 81,816.30</u>	<u>309,817.24</u>	<u>35,208.96</u>	<u>426,842.50</u>
Over (Under) Funded Amount	<u>-</u>	<u>\$ 24,997.24</u>	<u>\$ 6,477.48</u>	<u>\$ 31,474.72</u>



**LIVINGSTON PARISH SEWERAGE DISTRICT TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2006**

The Sinking Fund, the Reserve Fund and the Depreciation & Contingency fund for all three bond issues have been combined to three funds. There is only one sinking fund to which the District moves funds to monthly and from which bond principal and interest is paid for all three funds. The same type of arrangement exists for the District's Reserve and Depreciation & Contingency fund, the District doesn't not maintain separate Sinking funds, Reserve funds or Depreciation & Contingency funds for each bond issue.

**5. ACCOUNTS RECEIVABLE**

Customer accounts receivable are as follows:

	<u>December 31, 2006</u>
Receivable from Sewer Two Consumers	<u>\$ 72,133.69</u>
Total Receivable at December 31, 2006	<u>\$ 72,133.69</u>

**6. CHANGES IN GENERAL FIXED ASSETS**

The following is a summary of changes in capital assets:

	Balance at January 1, 2006	Additions	Deletions	Balance at December 31, 2006
<b>Fixed assets not being depreciated:</b>				
Land	\$ 138,134.00	-	-	\$ 138,134.00
Construction in Progress	-	\$ 31,940.00	-	31,940.00
Total	<u>\$ 138,134.00</u>	<u>\$ 31,940.00</u>	<u>-</u>	<u>\$ 170,074.00</u>
<b>Fixed assets being depreciated:</b>				
Plant	\$ 11,233,719.26	\$ 610,850.00	-	\$ 11,844,569.26
Machine and Equipment	580,192.00	12,239.00	-	592,431.00
Vehicles	106,356.00	-	-	106,356.00
Total	<u>\$ 11,920,267.26</u>	<u>\$ 623,089.00</u>	<u>-</u>	<u>\$ 12,543,356.26</u>

**LIVINGSTON PARISH SEWERAGE DISTRICT TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2006**

	Balance at January 1, 2006	Additions	Deletions	Balance at December 31, 2006
<b>Accumulated Depreciation:</b>				
Plant	\$ (2,614,302.76)	\$ (293,963.00)	-	\$ (2,908,265.76)
Machine & Equipment	(340,577.00)	(37,129.00)	-	(377,706.00)
Vehicle	(85,789.00)	(8,935.00)	-	(94,724.00)
Total Accumulated Depreciation	<u>\$ (3,040,668.76)</u>	<u>\$ (340,027.00)</u>	<u>-</u>	<u>(3,380,695.76)</u>
Capital Assets (Net) at December 31, 2006				<u>\$ 9,332,734.50</u>

**7. BOND ISSUANCE COSTS**

Bond issuance costs totaling \$304,804.65 over the forty year life of the bonds or \$7,620.00 per year. Accumulated amortization amounted to \$18,342.00 as of December 31, 2006.

**8. LONG-TERM DEBT**

The following is a summary of loan transactions of the Sewer District for the year ending December 31, 2006 :

	FMHA BOND	1997 REFUNDING BONDS	2004 REVENUE BOND	TOTAL
Bonds payable at January 1, 2006	\$ 748,445.92	\$ 209,000.00	\$ 4,800,000.00	\$ 5,757,445.92
Bonds Issued	-	-	-	-
Bonds Retired	<u>(23,937.02)</u>	<u>(25,000.00)</u>	<u>(50,000.00)</u>	<u>(98,937.02)</u>
Bonds payable at December 31, 2006	<u>\$ 724,508.90</u>	<u>\$ 184,000.00</u>	<u>\$ 4,750,000.00</u>	<u>\$ 5,658,508.90</u>

Loan details are as follows:

**A. \$1,047,000 SEWERAGE SYSTEM LOAN NUMBER R-1**

Interest only on the first two annual payments starting on February 28, 1995.

Payments of \$62,077 annually thereafter on each February 28<sup>th</sup> until principle and interest are fully paid, except the final payment of the entire indebtedness, if not sooner paid, shall be due and payable on the last annual payment date which is forty years from the date of the bond.

**LIVINGSTON PARISH SEWERAGE DISTRICT TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2006**

**B. \$365,000 REVENUE REFUNDING BONDS SERIES 1997-A**

Annual payments of \$32,337 to \$38,000, due on each February 28, beginning in 1998 and continuing until 2012.

**C. \$4,950,000 SEWER IMPROVEMENT REVENUE BONDS**

Annual payments of \$260,810 to \$284,873 due each March, beginning in 2005 and continuing until 2044.

Repayment is to be made as follows:

YEAR ENDED	FMHA BONDS		1997 REFUNDING BONDS		2004 REVENUE BOND		TOTAL PRINCIPAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2007	25,942.83	36,134.12	26,000.00	11,040.00	50,000.00	231,513.76	101,942.83
2008	27,240.03	34,836.97	28,000.00	9,480.00	50,000.00	230,213.76	105,240.03
2009	28,602.03	33,474.97	30,000.00	7,800.00	55,000.00	228,613.76	113,602.03
2010	30,032.18	32,044.87	32,000.00	6,000.00	55,000.00	226,653.76	117,032.18
2011	31,533.74	30,543.26	33,000.00	4,080.00	60,000.00	224,873.76	124,533.74
2012-2016	182,955.98	127,429.02	35,000.00	2,100.00	320,000.00	1,089,403.80	537,955.98
2017-2021	233,503.34	76,881.66	-	-	400,000.00	1,015,482.52	633,503.34
2022-2026	164,698.77	16,297.31	-	-	500,000.00	915,467.50	664,698.77
2027-2031	-	-	-	-	635,000.00	778,170.00	635,000.00
2032-2036	-	-	-	-	810,000.00	601,277.50	810,000.00
2037-2041	-	-	-	-	1,050,000.00	367,900.00	1,050,000.00
2042-2046	-	-	-	-	765,000.00	81,120.00	765,000.00
TOTAL	<u>\$ 724,508.90</u>	<u>\$ 387,642.18</u>	<u>\$ 184,000.00</u>	<u>\$ 40,500.00</u>	<u>\$4,750,000.00</u>	<u>\$5,990,690.12</u>	<u>\$5,658,508.90</u>

**9. RISK MANAGEMENT**

The District is exposed to various risks of loss related to theft, damage, or destruction of assets, torts, injuries, natural disasters, and many other unforeseeable events. The District purchases commercial insurance policies and bonds for any and all claims related to the aforementioned risks. The District's payment of the insurance policy deductible is the only liability associated with these policies and bonds.

**LIVINGSTON PARISH SEWERAGE DISTRICT TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2006**

There has been no significant decreases in insurance coverage from the prior year, and the amount of settlements has not exceeded the insurance coverage for the past three fiscal years.

**LIVINGSTON PARISH SEWERAGE DISTRICT TWO**  
**Denham Springs, Louisiana**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2006**

**10. PER DIEM PAID TO BOARD MEMBERS**

Board members are appointed by the Livingston Parish Council and serve at the pleasure of the Council. There are no set terms of office. Board members are paid \$60 per diem for each meeting they attend.

S. Ball 39765 La Hwy 16 Denham Springs, LA 70726	\$ 540.00
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J. K. Parker 36426 Lucas Drive Denham Springs, LA 70726	660.00
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Kenneth Bingham 8850 Old Winchester Rd. Denham Springs, LA 70726	600.00
	<u>\$ 1,800.00</u>

**11. INCOME TAXES**

Livingston Parish Sewerage District Two is exempt from all federal and state income taxes.

**12. LITIGATION**

According to the Sewerage District's attorney, there is no pending litigation against the Livingston Parish Sewerage District Two.

**13. RETIREMENT PLAN**

The Sewer District does not belong to a retirement program. However, the District contributes to self-employed retirement plan (SEP). Employees are fully vested at the time of contributions.

## **OTHER REPORTS REQUIRED BY**

### ***GOVERNMENT AUDITING STANDARDS***

The following pages contain a report on compliance with laws and regulations and on internal control over financial reporting as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material misstatements in internal control or compliance matters that would be material to the presented financial statements.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Board Members of  
Livingston Parish Sewerage District Two  
Denham Springs, Louisiana**

I have audited the basic financial statements of **Livingston Parish Sewerage District Two**, Denham Springs, Louisiana, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2006, and have issued my report thereon dated June 19, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, we considered the **Livingston Parish Sewerage District Two** internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Livingston Parish Sewerage District Two's** internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the **Livingston Parish Sewerage District Two's** internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

**Compliance**

As part of obtaining reasonable assurance about whether **Livingston Parish Sewerage District Two's** financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The

results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and the Louisiana Governmental Audit Guide.

This report is intended solely for the information and use of **Livingston Parish Sewerage District Two's** management, pass-through entities, and the Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Leroy J. Chustz*

Certified Public Accountant, APAC

June 19, 2007



## **Livingston Parish Sewerage District Two**

### **Schedule of Findings Year Ended December 31, 2006**

#### **A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unmodified opinion on the basic financial statements of Livingston Parish Sewerage District Two.
2. No reportable conditions were disclosed during the audit of the basic financial statements.
3. No instances of noncompliance were disclosed during the audit of the basic financial statements.
4. There were no findings associated with the federal awards received by Livingston Parish Sewerage District Two.

#### **B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

**Livingston Parish Sewerage District Two**

**Schedule of Prior Year Findings  
For The Year Ended December 31, 2006**

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

There were no prior year findings.